Investing in buy-to-let property

Things to think about before investing in buy-to-let property.

Property can be a way to diversify your portfolio of investments, provide regular income and potentially be a source of capital growth.

House prices increased by an average of 5.8% in the year to September 2016, meaning that residential property continued to outperform many other types of investment.

However, buy-to-let property isn't suited to everyone. There are risks, costs and responsibilities associated with owning a property that is rented out.

If you are considering investing in buy-to-let property it is essential that you understand and are comfortable with the following points:

- **access to money** - property is not a liquid asset as it takes time to access your money when it is sold
- **house prices** - slower growth could mean that you don't receive the capital growth you anticipated when you sell the property
- **profit is not guaranteed** - making a profit is not guaranteed, even if your property increases in value. Property is relatively expensive to buy and sell when you consider stamp duty land tax (SDLT) and professional fees.

Mortgages

Unless you are a cash buyer, you will need to take out a mortgage to finance your purchase.

While broking consumer buy-to-let is no longer regulated by the Financial Conduct Authority (FCA), advising, arranging, lending and administering consumer buy-to-lets are all covered by the Mortgage Credit Directive which the FCA enforces. Business buy-to-let is not covered by this legislation.

As mortgage payments are due each month, you need to make sure that you have the resources to cover any periods when you are not receiving rental income.

Also, if the rental income is less than the mortgage you will need to make up any shortfall.

Landlord responsibilities

Landlords have various legal responsibilities in terms of their property and tenants.

These include:

- following health and safety rules such as installing smoke alarms
- keeping tenant deposits in a government-approved scheme
- providing an energy performance certificate for the property
- carrying out most repairs.

While you can outsource some of these tasks, it is ultimately your duty to ensure that you meet your legal responsibilities.

Investing in buy-to-let is potentially expensive in time and energy as well as money. If you don't feel you can spare enough time to fulfil your duties as a landlord it may be best to seek other options.

We can help you decide if buy-to-let property is a suitable investment.

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Costs

You should budget for solicitor's fees, survey costs and any other costs associated with getting a mortgage.

However, the biggest cost when buying a property is likely to be SDLT or land and buildings transaction tax (LBTT) in Scotland.

An additional 3 percentage points is payable in SDLT on most property purchased as a buy-to-let. Similar rates apply to LBTT in Scotland.

Tax on additional residential property

Portion of property price		Rate
SDLT	LBTT	
Up to £40,000		Zero
£40,001 - £125,000	£40,001 - £145,000	3%
£125,001 - £250,000	£145,001 - £250,000	5%
£250,001 - £925,000	£250,001 - £325,000	8%
£925,001 - £1.5 million	£325,001 - £750,000	13%
Above £1.5 million	Above £750,000	15%

Other costs

While you are renting out the property you will have to pay for any repairs or renovations and potentially appliances and furniture.

You can save time by using a letting agent to find tenants, collect rent and maintain the property.

You will have to pay estate agents and other professional fees when you decide to sell the property.

Some of these costs can be deducted from your income before tax.

Tax on gains

In most cases, buy-to-let property is not eligible for private residence relief and will therefore be subject to capital gains tax (CGT) upon sale. Profits made on property above the annual allowance (£11,100 for 2016/17) will be taxed at 18% (basic rate taxpayers) or 28% (higher rate taxpayers).

Landlords will have to pay any CGT within 30 days of completion of a sale of property from April 2019. The current payment period is between 10 and 22 months after the disposal is made.

Tax on income

Individuals pay tax on income from property at their marginal rate.

Income must be reported through a self-assessment tax return. You will need to report income from property if you receive:

- £2,500 - £9,999 after allowable expenses
- £10,000 or more before allowable expenses.

The government advises individuals with annual property income of below £2,500 to contact HMRC directly about reporting property income.

Reducing tax

Expenses

Landlords of residential property can deduct day-to-day expenditure incurred while running the business from their profits.

Allowable expenses include:

- repairs and maintenance
- buildings and contents insurance
- ground rent, rent and service charges
- utility bills
- council tax
- cleaning and gardening services
- letting agents' and accountants' fees.

Renovation costs cannot be deducted as expenses.

Landlords can also deduct the cost of replacing furnishings, appliances and kitchenware from their profits before tax. This replaced the 10% wear and tear allowance from April 2016.

Mortgage relief

Residential landlords can deduct all finance costs from their taxable rental profit.

However, restrictions on this tax relief will come into effect from the start of the 2017/18 tax year.

By 2020/21 tax relief on finance costs such as mortgage and loan interest will be 20%.

The new regime will be introduced gradually:

- **2017/18**: 75% of finance costs, 25% as basic rate tax reduction
- **2018/19**: 50% of finance costs, 50% as basic rate tax reduction
- **2019/20**: 25% of finance costs, 75% as basic rate tax reduction
- **2020/21**: all finance costs will be given as basic rate tax reduction.

Higher or additional rate taxpayers will see their tax relief reduced. The extent will depend on whether the personal tax allowance and tax bands change by 2020/21.

Basic rate tax payers will not pay more tax on their property.

Property allowance

A £1,000 tax-free allowance for property income is due to come into effect from April 2017. Individuals with property income below the allowance will no longer have to report or pay tax on that income.

People with property income exceeding the allowance can choose to deduct £1,000 from their taxable profits instead of calculating exact expenses.

Talk to us if you are considering investing in buy-to-let property.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. Your property may be repossessed if you do not keep up repayments on your mortgage.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.